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TAGS: [ETRD](#) [ECON](#) [PGOV](#) [PREL](#) [NZ](#)  
SUBJECT: NEW ZEALAND FACES LONG MARCH TO CHINA FTA

REF: A. CANBERRA 531  
[1](#)B. 2004 WELLINGTON 217

(U) Classified by Ambassador William McCormick. Reasons: 1.4  
(b) and (d).

[1](#)1. (C) Summary: Negotiations on a China-New Zealand free-trade agreement have been slow going since their start 16 months ago, and the road ahead looks long and difficult, with China firmly in the driver's seat. Beijing has pitted New Zealand against Australia, trying to hold New Zealand hostage to whatever advantage China extracts from Australia in separate free-trade negotiations. Also, Beijing has warned New Zealand that if it does not accept China's terms for an agreement, bigger and more important countries could jump the queue, leaving New Zealand behind. Beijing has taken a tough line in the talks, which it sees both as "practice" and precedent for future dealings with larger OECD members. New Zealand, the first OECD country to start talks on a free-trade deal with China, is left with little room to maneuver and unable to turn back now that it is so publicly committed to the negotiations. End summary.

The premier's visit  
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[1](#)2. (SBU) New Zealand's eagerness for a free-trade agreement (FTA) with China has never been in doubt, a fact that initially sped its entry into the negotiations but that now might pose a problem. New Zealand was the first developed country to sign an agreement on China's admission to the World Trade Organization (WTO), the first to recognize China as a market economy and the first to start negotiations on a free-trade deal (ref B). Chinese Premier Wen Jiabao said during a visit to New Zealand that he hoped for a fourth "first": that New Zealand would be the first Western developed country to sign an FTA with China.

[1](#)3. (C/NF) Discussions on the FTA were the centerpiece of Wen's stopover in Wellington from April 5 to 7. He and New Zealand Prime Minister Clark announced that they would seek to conclude a deal within one to two years and, to accelerate the process, they agreed to ramp up responsibility for the talks to the level of their vice ministers. In words chosen by Wen, according to New Zealand's lead negotiator David Walker, the two leaders said the result would be a "comprehensive, high quality and balanced agreement." Walker told post on May 2 that his government previously had resisted Chinese pressure to speed up the talks, believing that could compromise New Zealand's ability to obtain a quality agreement. But, mollified by Wen's public commitment to a "comprehensive" deal, New Zealand dropped its refusal to set a time frame for the negotiations.

¶4. (SBU) New Zealand views an FTA as part of an effort to form a comprehensive relationship with China. An agreement also is intended as insurance against failure of the Doha Round and a means of getting Washington's attention in the absence of free-trade talks with the United States, according to a former New Zealand diplomat and industry representative.

The Kiwis posit that for China, an agreement would be an image-builder, a chance to demonstrate to the WTO that it can forge an economic partnership with an OECD country.

The negotiations

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¶5. (C/NF) The 16 months of talks have gone little beyond exchanging views and identifying topics for discussion. In the first five negotiating rounds, starting in December 2004, the two sides discussed process and procedure and exchanged information, according to a New Zealand trade official. Only in the fourth session did both sides discuss a framework of rules for an agreement, such as rules of origin, quarantine regulations and technical barriers to trade. In the sixth round, in March in Beijing, New Zealand outlined the issues that it wants to include in a "comprehensive" deal. Walker said detailed discussions have been held only on trade in goods, with New Zealand wanting all tariffs on goods to go to zero, although it is willing to reach that goal over time. Both sides have identified their "sensitive" sectors: for China, dairy and meat products and services, and for New Zealand, textiles, clothing and footwear. A New Zealand Treasury official said his government has accepted the idea that negotiations on some sensitive issues will have to be deferred.

¶6. (C/NF) Walker said detailed discussions have yet to start on other issues that New Zealand wants addressed, including services, intellectual property, investment, government procurement and dispute settlement. He noted that New Zealand knows it would not get everything it wants from China on investment, and it accepts that an agreement with China would exclude labor or environmental issues, which will be dealt with in "parallel" discussions outside the FTA talks. China has said it wants to include "Mode 4" liberalization -- the temporary movement of Chinese people to New Zealand -- and New Zealand is awaiting specifics of that request, Walker said. The seventh round is scheduled for the week of May 15 in New Zealand.

¶7. (C/NF) A fundamental difference between the two sides has been over the deal's scope. Wen's reference to a "comprehensive" agreement notwithstanding, his government's expectations are much more limited than New Zealand's, the trade official said. For instance, China's FTA with Chile, signed November 18, covers only goods. Walker said he has reminded the Chinese that negotiating with an OECD country is different: "We have told them that FTAs are WTO-plus." However, before departing Wellington in late 2005, then Chinese Ambassador Chen Mingming told a closed meeting of diplomats and academics: "Many people (in the Chinese government) do not see the need to make more concessions than were made when we acceded to the WTO." Chen also warned that China's position on agriculture and services was "formidable," implying these sectors might be excluded from a deal.

¶8. (U) China is New Zealand's fourth-largest export market, although it imposes significant tariffs on New Zealand's top exports, including dairy products, meat, kiwifruit and wool. China is seen as having particular interest in gaining greater access in New Zealand for its textiles and clothing, the last large product category on which New Zealand imposes tariffs. A joint study on the feasibility of an FTA predicts that a trade deal could boost New Zealand's exports to China by 20 to 39 percent over 20 years, or US \$180 million to US \$280 million a year. China's exports to New Zealand would rise by 5 to 11 percent, or US \$40 million to US \$70 million a year.

The difficulties for New Zealand

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¶9. (C/NF) Walker acknowledged that, in negotiating with a far larger country, New Zealand will have to be nimble and play its cards carefully. Its basic problem is that it holds few cards, having already given China what it most wanted -- recognition by an OECD country that it is a market economy, the Treasury official said. New Zealand thereby agreed not to use anti-dumping and safeguard rules against China, as allowed under Beijing's WTO accession agreement.

¶10. (C) Although negotiating a free-trade deal would seem relatively easy since New Zealand poses little threat to China's immense economy, the Chinese have taken a hard line. They know that whatever they agree to with New Zealand will be considered precedent in future FTA negotiations, according to the trade official. In addition, China aims to concede no more than New Zealand's other FTA partners already have. "The Chinese have in their back pockets copies of the New Zealand-Thailand FTA ... which limits our flexibility and negotiating leverage," the trade official said. That agreement contains no commitments to liberalize trade in services, despite the fact that services compose more than two-thirds of New Zealand's GDP and 28 percent of its exports.

¶11. (C) New Zealand's leverage also is lessened by its stated desire to be among the first of OECD countries to sign an FTA with China. New Zealand fears that at some point China will move on to other, larger and more important economies. The Chinese already have implied that threat by essentially saying that if New Zealand wants to be first, then it must accede to China's terms, the Treasury official said.

¶12. (C) The nightmare for New Zealand is that, having watched enviously as Australia signed an FTA with the United States in 2004, its neighbor beats it again with China. New Zealand officials had proposed to Canberra that they negotiate an agreement jointly with China, but were rebuffed, according to an Australian government official. Now, New Zealand finds its negotiations affected by the ongoing China-Australia talks -- and Australia appears to be in no rush for a deal (ref A). Former Chinese Ambassador Chen said: "It is easy to reach a deal with New Zealand because its capacity is not so great. But our problem is Australia. What we give to New Zealand, Australia will want." With China and Australia in the figurative front seat, New Zealand may feel increasingly as if it is just along for the ride.

¶13. (C) Among the more general difficulties that New Zealand officials have experienced dealing with their Chinese counterparts is contending with China's centralized decision-making process, the trade official said. New Zealand often has had to ask for higher-level participants, even sending Prime Minister Clark to Beijing in May 2005 largely to get the Chinese leadership to again publicly commit to the negotiations, according to the trade official. New Zealand also has had to negotiate separately with two Chinese ministries because of a philosophical split. The Chinese Commerce Ministry wants to push ahead with liberalization, while the Agriculture Ministry is anxious to protect the country's small dairy farmers.

Comment

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¶14. (C) For the Chinese, an FTA with New Zealand is less about substance and more about symbolism -- a sign that China, in the words of PM Clark, "can deal with open market economies." But the New Zealand government is keenly aware that it needs a deal with substance if it is to avoid being criticized at home and abroad for giving in to Chinese demands. Still unclear, amid the upbeat comments of the countries' leaders last month, is which side is better endowed with patience. Predictions of a deal in "one to two years" appear very optimistic.

McCormick